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AZ CORP COMMISSION  
DOCUMENT CONTROL  
July 18, 2006

Commissioner Kristin Mayes  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**

**JUL 20 2006**

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**RE: Natural Gas Prices in Northern Arizona  
UNS Gas Rate Case (Docket No. G-04204A-06-0463)**

Dear Commissioner Mayes:

Thank you for your July 7, 2006 letter regarding natural gas prices in Northern Arizona. You requested information on steps UNS Gas, Inc. ("UNS Gas" or "Company") is taking to mitigate the increased costs associated with providing gas service to our fast growing customer base in Northern Arizona. Specifically, you raise two concepts for mitigating future rate increases for existing UNS Gas customers: (i) a proposal for hook-up fees to be submitted with the rate case; and (ii) a re-examination of the current projected purchased gas adjuster ("PGA") bank balance.

Since receipt of your letter, UNS Gas filed a rate case with the Arizona Corporation Commission ("Commission"). The rate case filing contains proposals that are designed to resolve the concerns that you have raised. UNS Gas is proposing that new customers pay a greater portion of line extension costs. UNS Gas is also recommending that several modifications be made to its PGA. In fact, UNS Gas will be filing a Motion to Consolidate, among other things, its Application to Review and Revise its PGA (Docket No. G-04204A-06-0013) with the rate case. In light of the pending rate case, I will file a copy of this letter with Docket Control in the UNS Gas rate case proceeding.

### **Hook-Up Fees**

I believe the underlying principle for your hook-up fee proposal is to require new customers to bear most, if not all, of the installation costs attributable to them. Our rate case proposes a modification to the existing line extension tariff that will require new customers to pay for a greater portion of their installation costs.<sup>1</sup> While I recognize that this is not the same as your suggested hook-up fee, it is designed to achieve the same goal. As the rate case proceeds,

<sup>1</sup> The details of our proposal are part of the direct testimony of Mr. Gary A. Smith.  
*Meeting the needs of the global energy market through service, technologies, and solutions.*

Commissioner Kristin Mayes  
July 18, 2006  
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UNS Gas will provide additional detail regarding the proposed line extension tariff modification. I will also make sure that our rebuttal testimony addresses more squarely a "hook-up fee" proposal.

**Purchased Gas Adjuster Bank Balance**

With regard to the UNS Gas PGA bank balance, you have posed the following questions:

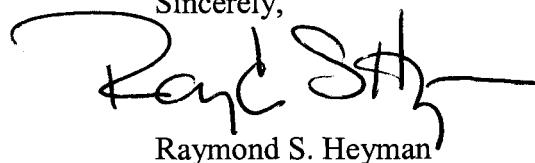
1. Has the Company updated its May 4, 2006 bank balance projections?
2. If a new projection has been calculated, does the Company still project an over-collection in April of 2007?
3. How much is this over-collection projected to be?
4. Do you have any plans to address the surcharge before its scheduled termination in April of 2007?

In answer to your questions, UNS Gas has updated its May 4, 2006 bank balance projection. The Company projects an over-collection of approximately \$12.7 million in April 2007, an under-collection of \$5 million in March 2008 and an under-collection of approximately \$13 million in December 2008. Attached hereto for your review is the latest projected PGA bank balance graph. As you can see, this graph reflects the ongoing volatility of the gas market and the inadequacies of the PGA as it currently exists. To put this graph in context I have asked that prior graphs be compiled together with a simulation of what the PGA bank balance would have been under other scenarios such as if there would have been no PGA factor cap in place. I will provide that information to you as soon as it can be compiled.

In the UNS Gas rate case, we recommend several modifications to the PGA and request that our Application to Review and Revise our PGA (Docket No. G-04204A-06-0013) be consolidated with the rate case. We believe that our recommended modifications, if implemented, will make the PGA a better tool for customers and the Company.

Please do not hesitate to contact me if you have any additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Ray S. Heyman", with a stylized flourish at the end.

Raymond S. Heyman

cc: Docket Control  
Commissioners  
Chris Kempley  
Lyn Farmer

# Projected PGA Bank Balance

Prices vs Mkt 100% Sales vs Fcst 100%

